

Chairman's statement

The expertise of our people is in high demand as customers look for innovative ways to defeat new threats to security.



Mark Elliott
Non-executive Chairman

Context

FY17 will be remembered as the year in which many of the world's most newsworthy events were influenced by the challenges being created by globalisation and a marked return to national politics. Over the summer, I engaged in discussions with Non-executive Directors of other companies listed on the London Stock Exchange about the risks and opportunities presented by Brexit. In the United States, where I have spent much of my working life, some of the political and economic conventions that have been in place for many years are being challenged and the Board and I are working closely with QinetiQ's US leadership team to ensure that we are responding effectively to the new realities.

In defence and security, we are seeing increasing complexity with nations facing multiple global threats from both state and non-state actors. In this environment, QinetiQ continues to play a vital role making connections between technologies, across supply chains and internationally to support government customers with the rapid development of new capabilities to combat these threats.

In April 2015, we appointed Steve Wadey as CEO of QinetiQ. Steve has significant defence sector experience and is implementing a strategy to deliver sustainable growth founded on a thorough understanding of the dynamics in our markets and the needs of our customers now and in the future. The Board and I are encouraged by the progress that is being made by Steve and his leadership team, and the momentum that is clearly building in the implementation of our strategic priorities.

Performance

In the year to 31 March 2017, we delivered increased orders, revenue and profit. We will continue to prioritise the delivery of sustainable growth with ongoing capital discipline as key elements of QinetiQ's investment case.

New CFO

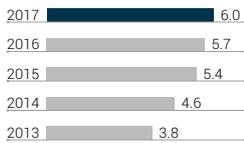
On 1 March 2017, the Board was delighted to welcome David Smith as Chief Financial Officer, following an extensive blue-chip career as CFO of both Rolls-Royce and of the technology group Edwards, and as CEO of Jaguar Land Rover. Our previous CFO David Mellors left QinetiQ at the end of 2016 to join Cobham plc. On behalf of the Board I would like to thank David Mellors for his contribution to QinetiQ; he drove a significant strengthening of the balance sheet providing a solid foundation for our future growth. We would also like to thank Dr Malcolm Coffin, QinetiQ Group Financial Controller, who assumed the CFO role on an interim basis.

“Achieving our ambition of becoming the chosen partner requires a relentless focus on meeting the needs of our customers both in our home markets and overseas.”

Progressive dividend policy

The Group has articulated its priorities for capital allocation which include a progressive dividend policy.

Full year dividend



4.0p

Final dividend to be paid on 1 September 2017 (2016: 3.8p)

Return of capital

The Group has also returned capital to shareholders by buying back shares. We returned £150m between May 2014 and September 2015, and a further £50m between November 2015 and March 2017.

Annual General Meeting 2017

11am on 19 July 2017, at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HZ.

Strategy

Over the last 18 months, Steve and his executive team led an Integrated Strategic Business Planning process, which was thoroughly discussed in a two-day meeting with the Board. In addition to this active involvement in the development of future strategy, the Board also ensures the effective scrutiny of mergers and acquisitions. In FY17, the Group completed the purchase of two businesses to support our strategy, Meggitt Target Systems in the UK and Canada, and RubiKon Group in Australia, its first significant acquisitions since 2008. I would like to add my personal welcome to the employees of these two companies and wish them many rewarding years as part of the QinetiQ Group.

With a significant amount of activity under way to drive growth in the UK, in international markets and through innovation, the Board is undertaking 'deep dives' into a number of topics to monitor delivery of the strategy. These deep dives are scheduled throughout the year with relevant members of QinetiQ's executive team and papers are submitted in advance so the focus is on two-way discussion rather than presentations. Topics scheduled for FY18 include those related to our strategic priorities, progress of the transformation of the Company, and focus on our key stakeholders – customers, employees and shareholders.

Governance

In addition to the implementation of the Group's strategy for sustainable growth, an ongoing priority for the Board is strong governance and the effective stewardship of the Company. During the year, Board members visited a number of sites including QinetiQ North America in Waltham, MA, and MOD Boscombe Down, where a number of activities associated with the Group's strategic priority to modernise UK test and evaluation are currently under way. These visits provided the opportunity to see at first-hand how we are implementing strategy and managing risk.

Employees

The visits have also provided the opportunity to spend time with a number of our employees. I never fail to be impressed by our scientists and engineers, whose expertise is in high demand as customers look for innovative ways to defeat new threats to security. I'd like to thank all of our employees for their ongoing dedication to our customers.

The knowledge and skills of our people are at the heart of our business and so development of our talent is a vital investment. Equally important is the ongoing commitment to the next generation through offering apprenticeships and graduate schemes and outreach programmes with our local schools.

Across the Group, our employees have done what they do best: acting with integrity, working collaboratively and focusing on performance for the benefit of our customers – three values that underpin the way we work at QinetiQ. We know it's not just what we do that is important but how we do it. In FY18, the Board is committing more time to consider how we want our culture to evolve to deliver our vision and strategy, how we nurture that culture and how our transformation can contribute.

QinetiQ's leaders play a vital role of delivering day-to-day operational performance and driving change. Steve's first decision as CEO was to establish a Leadership Community at QinetiQ and bring together the top 100 leaders every month. Non-executive Directors have attended these Leadership Community events during the year, contributing to workshops and witnessing how leaders are driving the future direction of the Company. We will continue to focus on leadership and succession planning in FY18.

Customers

Achieving our ambition of becoming the chosen partner requires a relentless focus on meeting the needs of our customers both in our home markets and overseas. To achieve this, we are establishing productive partnerships with others – from the largest global companies to small businesses and universities – and aim to be open and professional in our relationships with our supply chain, basing them firmly on mutual respect.

Shareholders

Along with employees and customers, shareholders are key stakeholders in QinetiQ as the owners of the Company. This year, Michael Harper, Senior Independent Director and Chairman of the Remuneration Committee, has consulted shareholders about the new remuneration policy to ensure it is aligned to their interests. We also enjoyed a constructive dialogue with investors during the CFO transition, with a number of them meeting David Smith before he joined. We would like to thank our investors for their continued support.

Capital allocation

Unlocking QinetiQ's potential requires focused investment in growth coupled with continued capital discipline to ensure growing, sustainable returns. In recognition of this, our priorities for capital allocation are: organic investment complemented by bolt-on acquisitions where there is a strong strategic fit; the maintenance of balance sheet strength; a progressive dividend; and the return of excess cash to shareholders.

Dividend

The Board proposes a final dividend of 4.0p per share for the year ended 31 March 2017 (2016: 3.8p), making the full year dividend 6.0p (2016: 5.7p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 1 September 2017 to shareholders on the register at 4 August 2017. The full year dividend represents an increase of 5%, reflecting our commitment to a progressive dividend.

Finally, I would like to thank Board members for their ongoing counsel. I value their considerable experience and the significant contribution that they have made this year.

Mark Elliott

Non-executive Chairman
25 May 2017